FALL 2024

2024-25 Natural Gas Heating Season Report

EXECUTIVE SUMMARY

After seeing record consumption and production in 2023, the demand for Canadian natural gas has continued to trend at a record pace in 2024. On the customer side, more than 81,000 new customers joined Canada's natural gas system in 2023 to take advantage of this affordable, reliable, and low emission energy choice – particularly as a winter heating option.

Natural gas production has also been strong, reaching record levels earlier in the year. The high production levels, combined with a mild winter, have resulted in above average storage levels for this upcoming heating season.

At a national level, prices for natural gas have averaged around $1.50 this year. Lower prices further the affordability advantage of natural gas for consumers.

The main determinant of prices this winter will be the weather. Prolonged periods of cold weather across large heating markets in North America will add pressure to increase prices. Conversely, warmer weather will have the opposite effect. Current probabilistic outlooks from Environment and Climate Change Canada show "warmer than normal" temperatures as being more likely for most of the country this winter which, if it is the case, will mean lower natural gas use, lessening the pressure for prices to rise higher. We note that the export of liquefied natural gas – increasingly from the United States, but also from Canada starting in 2025, will start to play a growing role in the price of natural gas in Canada.

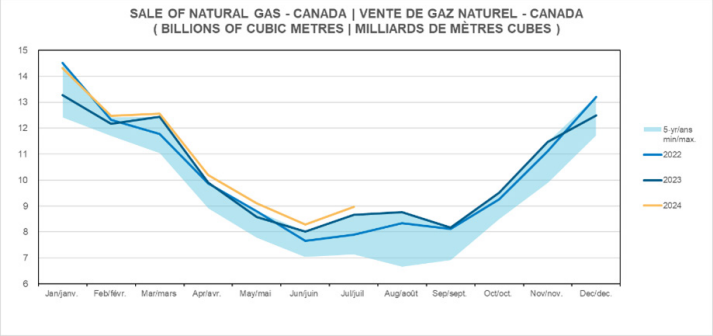
INTRODUCTION

Canada's natural gas system offers affordable, reliable, and low emission energy. This report looks at the main indicators for Canada's natural gas market as we enter the 2024-25 winter heating season. A summary of these key indicators helps readers understand where market fundamentals sit as the colder months approach, furnaces are turned back on, and demand for natural gas peaks.

NATURAL GAS DEMAND

Gas demand remains high into 2024 while residential customers continue to join the natural gas system.

After breaking records in 2023, gas demand remains at a record high pace so far in 2024. A cold snap event in parts of Western Canada saw high gas demand in January of this year. However, relatively mild temperatures for the rest of the winter resulted in lower residential gas demand in the months of February and March compared to prior years. Despite this, overall natural gas demand has increased compared to last year, because of higher demand in both the commercial and industrial sectors. At the



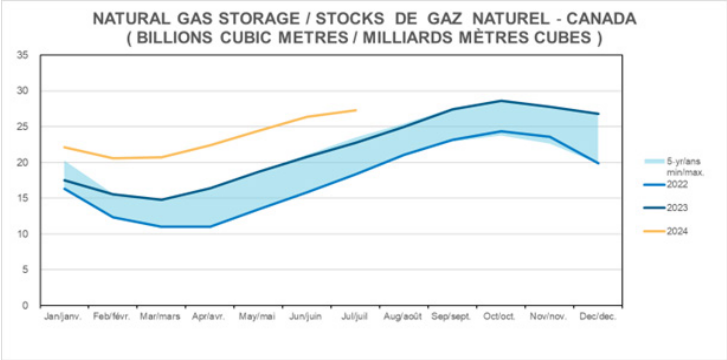
current pace, gas demand in 2024 is on track to be another record year. From February 2024 to July 2024 (the most recent available data), monthly gas consumption exceeded the record high for each consecutive month.

NATURAL GAS STORAGE

Natural gas storage levels are high heading into the heating season.

Since ending 2023 with record high inventory levels, storage levels continue to be historically high in 2024. A milder winter and high production levels through the winter have resulted in much higher inventory levels at the conclusion of the 2023-24 heating season.

While inventory levels typically draw down during the winter, this was not always the case in 2024. Inventory levels increased slightly between February and March because of a mild winter and high production levels. This resulted in March storage levels being more than 40% higher than the five-year maximum. As the typical injection cycle started in April, the rate of inventory build experienced so far this year has been in line with typical rates. However, since the heating season ended with much higher storage levels, current inventories are abnormally high. July storage



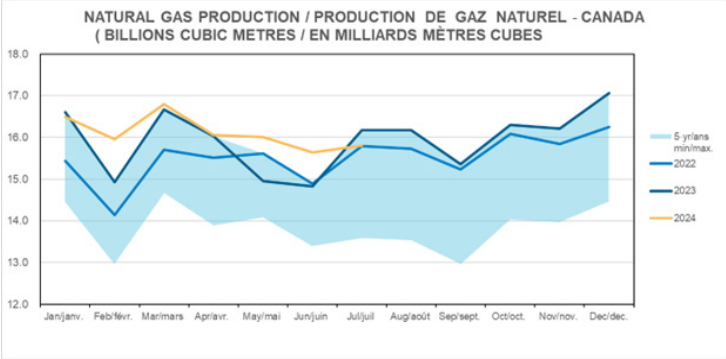
levels have already reached the same levels as that of September last year

It is expected that gas inventory will remain at very high levels heading into the 2024-25 winter heating season. The impacts of high storage have already been observed in the reduced production and the lower gas prices in Alberta. Ultimately, higher inventories put some downward pressure on prices as they provide additional supply buffers in case of a cold winter or other adverse events.

NATURAL GAS PRODUCTION

Canada's natural gas production to slow after record highs.

Much like on the demand side, Canada achieved record natural gas production levels in 2023. The first half of 2024 has mostly continued that trend. Besides January, monthly production records were broken in five consecutive months between February 2024 to June 2024. These higher production levels have resulted in an oversupply scenario where storage levels are high and gas prices are low. As a response to these conditions, some gas producers have shut-in production, softening production levels starting in July. As these oversupply conditions persist, production levels may slow further, making it



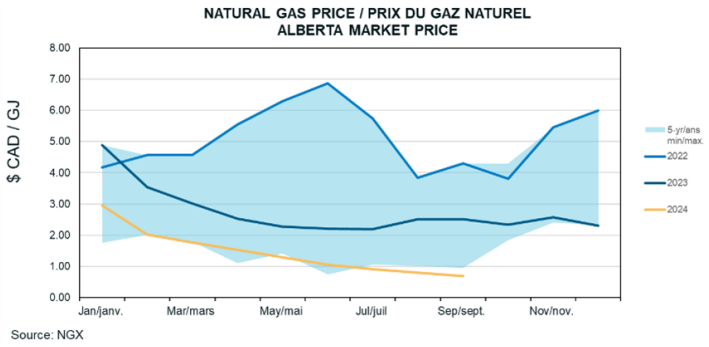
unlikely that they will immediately return to the record highs that were previously seen in the first half of 2024. Due to the abundant supply going into the 2024-25 heating season, prices would be expected to stay low throughout the coming winter.

NATURAL GAS PRICES

Natural gas cements its position as Canada's most affordable energy.

Following a pandemic and an energy crisis in Europe, 2023 saw natural gas prices finally return to pre-pandemic levels. However, 2024 saw the Alberta Gas price drop even further than typical. Natural gas prices were averaging $1.44/GJ through September this year, down from an average of $2.85/GJ during the same period last year. Natural gas prices have declined to their lowest year-to-date in September at $0.70/GJ, outside of the five-year low. The low prices have already had an impact on production levels as some producers have started to shut-in some wells. Low natural gas prices are beneficial to end-use consumers.

In the international context, Canadian prices remain among the lowest in the world. The reason for this is that North America has a series of significant advantages that make natural gas the most affordable energy option, which includes

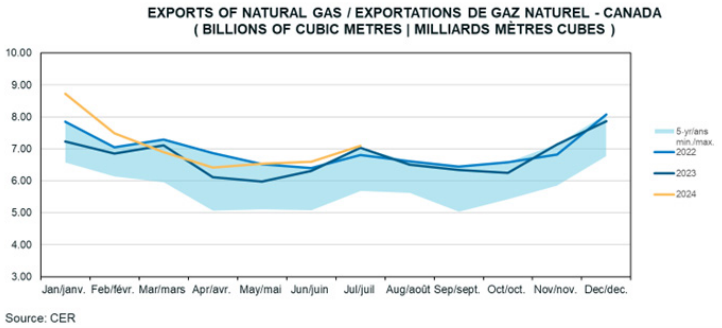


abundant local supply, significant storage, and robust and integrated markets. This is particularly true in Canada; considering the recent collapse in Canadian prices, the spot prices in Europe and Asia as of September 2024 were around twenty times higher than the price of gas in Alberta. Furthermore, limited exporting capacity keeps prices more insulated from the volatility seen in other markets. Even when compared to the US Gulf Coast, prices in Alberta have been, on average, four times cheaper in 2024.

NATURAL GAS EXPORTS

With a highly integrated market with the United States, Canada is a significant exporter of natural gas. In 2023, Canada exported 80 billion cubic metres of natural gas, about 42% of the country's total natural gas production. Year-to-date, in 2024, Canada has exported more natural gas to the US when compared to the five-year range. From January to July of this year, Canada's total exports are equal to 49.7 billion cubic metres, equivalent to about 53% of our total production to date.

A dynamic to watch will be how the low Canadian gas prices will affect the volume of Canadian exports moving forward. Lower gas prices in Canada may incentivize greater exports to the US as a cheaper alternative to domestic US supply. Another emerging trend to observe for the upcoming year will be the impact of Canadian LNG exports. With LNG Canada on the near horizon, the uptick in demand will likely cause gas prices to rebound. However, since the start-up date isn't expected until mid-2025, it is not likely to have a significant impact on natural gas prices heading into the 2024-25 heating season.



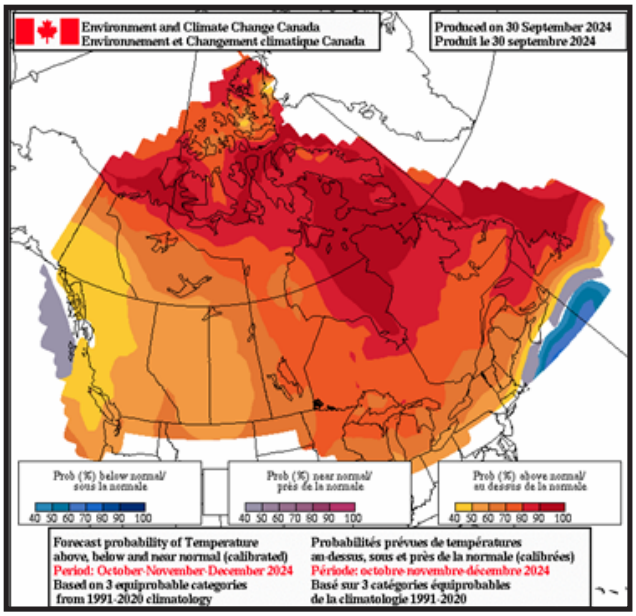
Source: CER

WINTER WEATHER

Forecast shows "warmer than normal" winter likely for most of the country.

Environment and Climate Change Canada's outlook, as of September 2024, predicts a high probability for "above normal" temperatures during the first half of the upcoming winter heating season (October to December) for most of the country. The prediction in the later part of the heating season (January to March) is "above normal" temperatures for Eastern Canada, with a slight probability of "below normal" temperatures for British Columbia.

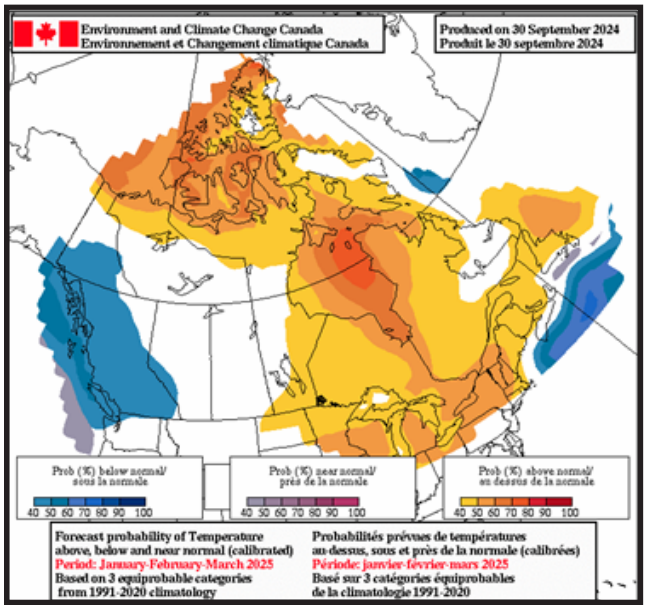
That is not to say that there won't be an extreme winter storm or a cold snap this winter – it just means that temperatures are expected to be warmer on average when compared to typical. Generally speaking, colder and snowier winter weather would lead to more energy use by homes and businesses.


Environment and Climate Change Canada
Environnement et Changement climatique Canada
Produced on 30 September 2024
Produit le 30 septembre 2024
Prob (%) below normal/
sous la normale
Prob (%) near normal/
près de la normale
Prob (%) above normal/
au dessus de la normale
40 50 60 70 80 90 100
Forecast probability of Temperature
above, below and near normal (calibrated)
Period: October-November-December 2024
Based on 3 equiprobable categories
from 1991-2020 climatology
Probabilités prévues de températures
au-dessus, sous et près de la normale (calibrées)
Période: octobre-novembre-décembre 2024
Basé sur 3 catégories équiprobables
de la climatologie 1991-2020

The implication of warmer weather is that supply and pricing are less likely to face upward pressures despite lower-than-typical inventories coming into this winter season.

SUMMARY

After a record-breaking year in both natural gas consumption and production last year, natural gas consumption is trending toward another record high thus far in 2024. High production rates at the beginning of the year have resulted in full storage levels heading into this winter season. While the high inventories and current low-price environment have caused production levels to decrease in recent months, supply remains abundant. With very low natural gas prices, recent production rates have slowed. The current winter prediction of “above normal temperatures” will also put some downward pressure on prices. Despite LNG exports being on the horizon, the increased demand is not expected to impact the upcoming heating season. Ultimately, Canada remains in a strong position heading into the 2024-25 winter heating season.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Forecast probability of Temperature above, below and near normal (calibrated)
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Probabilités prévues de températures au-dessus, sous et près de la normale (calibrées)
Période: janvier-février-mars 2025
Basé sur 3 catégories équiprobables de la climatologie 1991-2020

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